

**WESTERN ASSET MANAGEMENT- CORE FULL DISCRETION**  
**GLOBAL FIXED: LEHMAN AGGREGATE BENCHMARK**

FOR THE MONTH OF: **SEPTEMBER** **2008**

**MANAGER PERFORMANCE CALCULATIONS**

\* Annualized returns

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
Western	-3.88%	-4.99%	-6.38%	0.80%	n/a
Lehman Aggregate	-1.34%	-0.49%	3.65%	4.15%	n/a

**PERFORMANCE ATTRIBUTION & STRATEGY COMMENTS**

**Performance Attribution—September** Our strategies produced negative results. Overall, credit spreads widened dramatically as financials sold off more than other subsectors on various bankruptcy and merger headlines. An emphasis on financial issues generated a significant negative impact as a result. Agency mortgages outperformed Treasuries as Fannie Mae and Freddie Mac were taken into government conservatorship. Our overweight to agency mortgage-backed securities was a small positive contributor to performance. Non-agency structured issues benefitted initially due to the discussion of TARP, but ended slightly lower by month-end. High-yield bonds underperformed as financials came under significant pressure, and portfolios that hold below-investment grade debt suffered an additional drag on performance. Emerging markets, where permitted, struggled on worries of the U.S. crisis spilling over to the rest of the world. Local currency bonds had a negative impact on the back of the U.S. dollar rally. International developed markets, where held, produced slightly negative excess returns versus U.S. Treasuries for the month on a steady flow of negative economic news. A modest exposure to TIPS had a negative impact as oil prices continued their decline. A moderately neutral to long duration posture had a small positive impact as the yield curve steepened.

**Outlook and Strategy—** The crisis hit a fever pitch in September. Bank deleveraging has triggered a negative feedback loop in financial markets that has driven bond market pricing far from fundamental value. This type of dynamic is restricted to fractional-reserve (read “leveraged”) banking systems. The underlying economy is not a fractional-reserve system. It is vulnerable to the effects of negative feedback loops in the financial market, but only when monetary and fiscal policies fail to counter those effects. The Fed reduced policy rates by unparalleled amounts early in the business cycle, and the real Fed funds rate has been negative for nearly a year. The Fed has willingly expanded its balance sheet and provided short-term financing en masse to commercial banks, investment banks, and insurance companies alike. Treasury conservatorship has allowed Fannie Mae and Freddie Mac to continue their mortgage securitization operations, sustaining the flow of credit to the housing market at a time when the private-label mortgage securitization business has ceased to exist. This has helped reduce yields on conventional 30-year mortgages to pre-crisis levels, an important development that directly addresses problems in the U.S. housing market. For the moment, however, financial market tensions trump any indications from the economic data, to the point that it is not worth arguing whether or not recession will occur. Rather than fixate on near-term economic prospects, we believe investors’ focus should be on developments over the medium- and long-term. Trust in the financial system will eventually recover. At that point, the deep liquidity discounts apparent across spread sectors should disappear, leaving prices that once again reflect the underlying probability of default. We believe it is essential to restate our investment thesis: it is essential for long-term investors to look past the current panic. Clearly, firms are susceptible to both a credit crunch and an economic downturn, but we believe investors are more than adequately compensated for bearing these risks.

**MANAGER STYLE SUMMARY**

*Western manages a customized portfolio for PERSI, which falls outside of their traditional product offerings. While the product is called, "Core Full Discretion" (one of their traditional products), Western has the flexibility to invest in global inflation-linked bonds and to take bigger bets where they see the opportunity. As such, this portfolio is more volatile than the traditional underlying product. This global mandate allows Western to hold foreign, non-dollar denominated securities, take currency positions, and enter into futures, options and swaps contracts.*

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**PORTFOLIO GUIDELINE COMPLIANCE**

SEPTEMBER 2008

Portfolio Guideline:	Western	Min	Max	Compliance
C. Weighted average duration including futures positions	<b>-3.40</b>	-30.00	30.00	<b>ok</b>
C4 (2): Sector Allocation				
a. Non-dollar denominated securities		0%	40%	<b>ok</b>
Un-hedged non-dollar denominated securities		0%	20%	<b>ok</b>
b. U.S. securities rated below investment grade (BIG)		0%	40%	<b>ok</b>
c. Non-dollar, Non-U.S. securities rated BIG		0%	20%	<b>ok</b>
d. Non-dollar denominated+emerging mkt+high yield		0%	50%	<b>ok</b>
C4 (3): Issuer				
a. Guaranteed by US gov, agencies, gov-sponsored corp or G-7		0%	100%	<b>ok</b>
b. Other national governments - limit per issuer		0%	10%	<b>ok</b>
c. Private MBS/ABS - limit per issuer		0%	10%	<b>ok</b>
If collateral is credit-independent of issuer & security's credit enhancement is generated internally - limit per issuer		0%	25%	<b>ok</b>
d. Obligations of other issuers subject to per issuer limit		0%	5%	<b>ok</b>
C4 (5): Credit				
No more than 40% of portfolio below Baa3 or BBB-/A2 or P2		0%	40%	<b>ok</b>
C4 (7): Derivatives				
Original futures margin and options premiums, exclusive of any in-the-money portion of the premiums		0%	5%	<b>ok</b>
F2. Annual Turnover	<b>81%</b>	100%	200%	<b>check</b>
The portfolio is in compliance with all other aspects of the Portfolio Guidelines			<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**MANAGER EXPLANATIONS FOR DEVIATIONS FROM PORTFOLIO GUIDELINES**

Annual Turnover:                      Given the decline of liquidity in the market and no significant changes in strategy this past year, turnover is actually lower than our average. We have added to positions where we are able and made some small relative value trades, but have not been making major adjustments to the portfolio.

**ORGANIZATIONAL/PERSONNEL CHANGES**

During the third quarter of 2008, Western added no members to its investment team, while losing two portfolio managers (Jaroslaw K. Karpinski from Western's London office; and Valerie Bannon from Western's New York office); and one research analyst (Noriaki Matsui from Western's London office).

**ACCOUNT TURNOVER**

Gained:	Number of Accounts:	10	Total Market Value (\$m):	\$ 571.0
Lost:	Number of Accounts:	21	Total Market Value (\$m):	\$ 4,349.0

Reason(s): Please note this data excludes commingled fund participants, mandate transfers, and account contributions/withdrawals from existing clients. Data is PRELIMINARY and is subject to change; it represents information for the quarter ending September 30, 2008.